

## Scaling Up Microfinance



# Loan Fund and Credit Union Collaborations

Seth Julyan, Opportunity Finance Network  
Melanie Stern, National Federation of Community Development Credit Unions

November, 11 2013



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## Go-To-Webinar

### Scaling Up Microfinance

#### GOAL

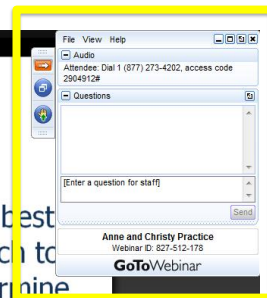
To enhance Microfinance CDFIs' exposure to best practices in the field as well as tools with which to analyze their own business practices and determine appropriate strategies to scale.

#### SUCCESS

Each microfinance organization will identify, and begin to implement, at least one new initiative to facilitate scaling operations.



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## CDFI Fund's Capacity Building Initiative

- The Capacity Building Initiative will greatly expand technical assistance and training opportunities for Community Development Financial Institutions (CDFIs) nationwide and significantly boost the ability of CDFIs to deliver financial products and services to underserved communities.
- Industry-wide training will target key issues currently affecting CDFIs and the communities they serve.



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## Scaling Up Microfinance Task Order

Expand the capacity of CDFIs that specialize in microfinance through a program focused on decreasing costs, exploring new products, building human capital, and improving business models in order to attract investments.

- 3 Trainings
  - Technical Assistance
  - Virtual Resource Bank



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## Presenter



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## Presenter



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## Scaling Up Microfinance



# Loan Fund and Credit Union Collaborations

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## Agenda

- Intros
- Loan Fund and Credit Union 101
- Benefits of Collaboration
- Examples of Collaboration
- Hybrid Organization
- Questions



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## OFN Overview

- Mission
  - OFN's mission through 2025 is to lead CDFIs and their partners to ensure that low-income, low-wealth, and other disadvantaged people and communities have access to affordable, responsible financial products and services.
- Core Purpose
  - OFN exists to align capital with social, economic, and political justice.
- Vision
  - When capital and justice are aligned, all people will have the resources and opportunities to act in the best interests of their communities, themselves, and future generations.



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## The National Federation of Community Development Credit Unions



2014 is our 40<sup>th</sup> ANNIVERSARY

For 40 years the federation has been helping low- and moderate-income people and communities achieve financial independence through credit unions.

Promoting financial inclusion by organizing, supporting, and investing in these community development credit unions (CDCUs), which specialize in serving populations with limited access to affordable financial services



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## Innovating



The Federation develops and delivers innovative products focused on low and moderate-income consumers, *fosters strategic partnerships*, identifies best practices for serving underserved communities, and provides education and training to CDCU leaders.



## Investing

The Federation's Community Development Investment Program invests in member CDCUs to strengthen their financial position and expand their impact on the low-income communities they serve.



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## Advocating



The Federation advocates with government agencies, regulators and lawmakers for policies and programs that promote the safety and soundness of credit unions while allowing them to grow and promote the financial inclusion of low-income communities.



## Expertise

The Federation builds CDCUs' capacity to serve low-income communities through technical assistance, webinars, practical tools and guides, and customized consulting services to support their growth and service to low-income communities.



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## ***Are you Collaborating with a Credit Union?***



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## ***Are you Collaborating with a Loan Fund?***



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## What we heard...

Lack of education about each CDFI type

Inability to find CDFIs to form collaborations

A strong desire to create collaborations

How to create meaningful collaborations



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## Loan Fund and Credit Union Overview



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## What is a Loan Fund?

- Non-regulated institution
- Non-depository institution
- Tax status
- Provide financing to many different sectors
- Primary mission of community development and strive to have a positive impact on low income, low-wealth and other disadvantaged people and communities



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## Loan Funds— Where Do Loan Funds Get Their Capital?

Source	% of Borrowed Funds
Banks/Thrifts/Credit Unions	30.7%
Federal Government	20.9%
Foundations	12.9%
Other	7.8%
State/Local Government	7.7%
Corporations	5.4%
Religious Institutions	4.9%
Individuals	3.6%
Non-Depository Financial Institutions	3.6%
National Intermediary	2.5%



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## Credit Unions – Capital Breakout

Type	% of Capital
Member Shares	93%
Non-member Deposits	1%
Secondary Capital	6%



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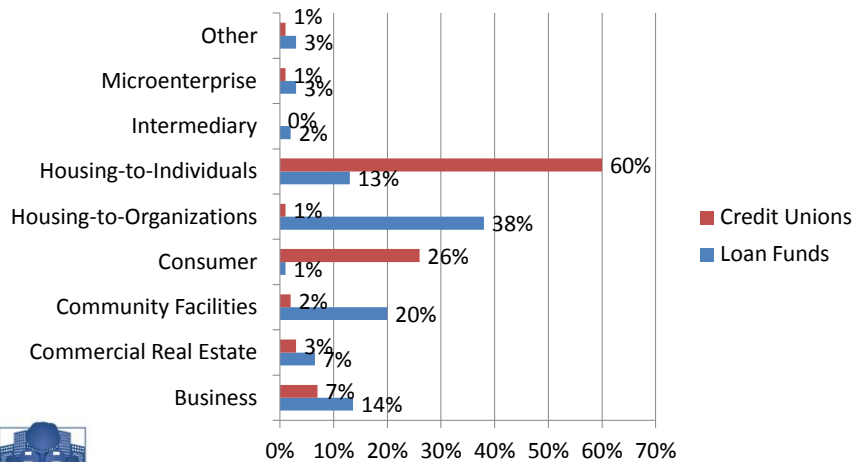
## Loan Fund Ratios

Type	Ratio (%)
Borrowed Capital Cost (%)	2.6%
Borrowed Capital Term	103 Months
Self Sufficiency Ratio	63%
Net Asset Ratio	43%
<b>Client Demographics</b>	
Low Income	71%
Minority	61%
Female	48%



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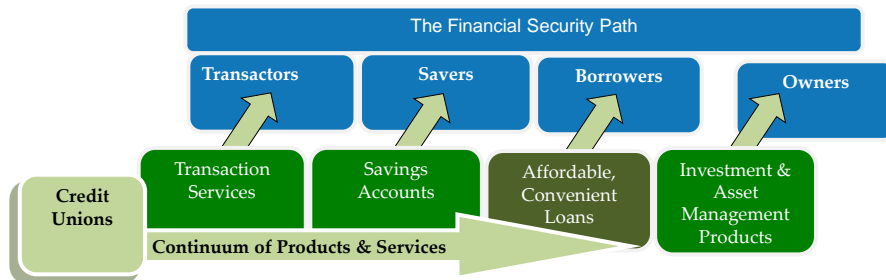
## Financing Sectors – Loan Funds vs. Credit Unions



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## Credit Union Basics

- CUs can offer a continuum of products and services to meet the diverse needs of individuals and businesses



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## About Credit Unions



created by **phroogal** [www.phroogal.com](http://www.phroogal.com)

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## More About Credit Unions

- Credit unions are not-for-profit financial cooperatives serving groups of members who have something in common such as employment at a company, membership in an association, or residence in a particular geographic area.
- A credit union that may serve anyone who lives or works within a particular geographic area is called a *community* credit union.
- A credit union that serves groups of employees or associations is typically called a *SEG-based* (for *select employee group*) or a *sponsor-based* credit union.



*We Don't Say No We say When*  
*"Vermont's only regulated financial institution dedicated to serving low-wealth individuals"*



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## Credit Unions

- More than 92 million U.S. consumers are member-owners of, and receive all or part of their financial services from the nation's 7,000 credit unions.
- Credit unions are democratically owned and controlled institutions
- Credit unions have no outside stockholders so, after reserves are set aside, earnings are returned to members
- Community Development Credit Unions are mission-driven institutions serving low- and moderate-income individuals and communities
- Majority of CDCUs are CDFIs
- Credit Unions represent approximately 25% of CDFIs but are the largest group by asset size



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## Benefits of Collaboration



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## Partnerships Matter Because they Can Build Economies of Scale

### The Goal

Build an efficient and effective program for communities that can be financially sustainable while meeting the social mission of the institutions

### Response:

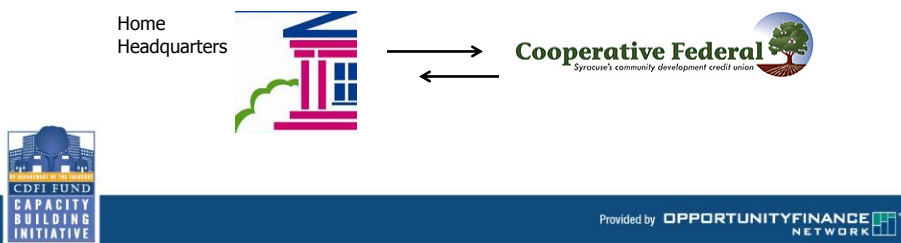
Find national and local partners that bring different but complementary expertise and funding to the community

1. Offer appropriate/impactful financial products
2. Work with community partners to provide more and better access to financial products



## Some Important Reasons to Partner with Existing Loan Funds

- Providing liquidity to fund business loans or mortgages
- Cross referrals for small business loans and mortgages
- Providing consumer loans, credit builder loans and other loans the loan fund may not make
- Providing additional counseling or other basic banking services already in the credit unions list of products and services
- Partnering with "specialty loan funds" –rural, green, job creating



## Additional Reasons Partnerships Matter

### To CUs

- Some CDFI programs do not work for regulated institutions (NMTC)
- Member Business Loans are heavily scrutinized by examiners and not all CUs have the expertise

### To Loan Funds

- Loan size constraints
- Liquidity Issues
- Cannot offer a full range of products and services



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## Loan Fund/CU Partnership Challenges

- Field of Membership - Can the CU accommodate referrals
- Risk Tolerance Varies - CU are heavily regulated and risk their credit rating if delinquencies and charge-offs are too high
- Regulatory Requirements - Cannot participate loans with uninsured entities
- Which May Lead to a Decision to Organize a Credit Union or create a non-profit affiliate



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# Examples of Collaboration



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## Collaboration Examples

- The Support Center
  - North Carolina Loan Fund
- Loan Guarantee Program for NC Credit Unions
  - Provide deposit to participating credit unions
  - Eight credit unions participated and two remain active
- Provide Business Lending Underwriting
  - Beginning to offer underwriting services to both loan funds and credit unions. Currently, one credit union is participating



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## Collaboration Examples

- Brooklyn Cooperate Federal Credit Union and BOC Capital
- Business Loan Participations
- Loan Referrals
- Depository Referrals



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## Hybrid Organizations



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## Hybrid Organizations

- Self Help Ventures Fund, Self Help Credit Union, Self Help Federal Credit Union
- HOPE Enterprises, HOPE Credit Union
- ASI Federal Credit Union, ASII
- Lakota Funds, Lakota Federal Credit Union



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## HOPE Overview

- Hope Enterprise Corporation
  - 501(c)3 Loan Fund
  - Started in 1994 by Foundation for the Mid South
- Hope Credit Union
  - Started at Anderson United Methodist Church
  - Founder was CEO of ECD
- 2002 – Hope Enterprise became sponsor of Hope CU
  - CU needed stronger systems / management
  - Loan Fund needed access to capital



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## HOPE Structure

- 2 organizations (plus subsidiaries)
  - 2 boards
    - Minimal overlap
    - CEO on both boards
    - Shared committees – executive, audit, credit, investment
  - 2 sets of books
- 1 staff
  - Employed by Hope Enterprise Corporation
  - Allocation of time / expenses
  - Organized by function / line of business



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## For Loan Fund – Why a Regulated Depository?

- Initial Strategy
  - Loan Capital
  - Leverage 501(c)3 assets
- Expanded Strategy - Mission Fit
  - Need to retain benefit of other work at household level
    - Not just loan products
    - Deposits, education, access
  - Most unbanked / underbanked region in the country



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## For Credit Union – Why a Loan Fund?

- Access different types of funds
  - Grants
  - Low cost debt
- Work beyond credit union constraints
- Shared costs for community development work



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## Benefits

- Expanded way thinking about Mission
- Expanded set of tools
  - Credit Union vendors / products / services
  - Discipline of regulations
- Growth opportunities
  - Credit Union
    - \$2MM to \$170MM
    - 1,500 members to 27,000+
  - Loan Fund - \$25MM to \$105MM
- Policy work is grounded



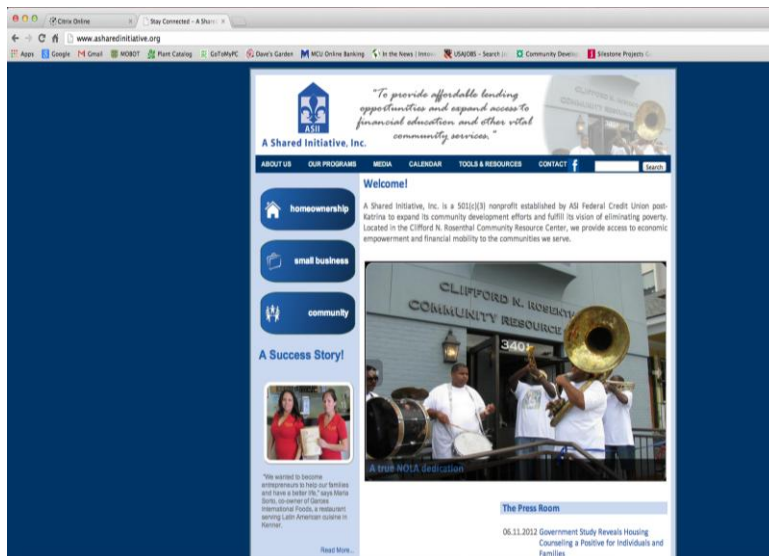
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## Challenges

- Complexity
  - Costs / Coordination
  - CU Regs
    - Raising capital – secondary capital
    - Lending restrictions – C&D, portfolio limits
- Compliance / Fraud / Training
- Retail Demands
  - 24 hour access - No downtime is acceptable
  - Members / Customers
- Managing Expectations & Relationships
  - Internal – staff / board / supporters
  - External – examiners / funders / investors



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## ASII

- A Shared Initiative, Inc. is a 501(c)(3) nonprofit established by ASI Federal Credit Union post-Katrina to expand its community development efforts and fulfill its vision of eliminating poverty, providing access to economic empowerment and financial mobility to the communities we serve.
- Effectively administer ASIFCU's community development initiatives and raise grant funds
- ASII began as a housing developer and in February 2010 established a small business and micro-entrepreneurship loan fund to meet the increasing demand for capital among low-income and minority clients- Can make different types of loans with a different risk profile



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**Cooperative Federal**



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# OFN and the Federation

Partnering to Help you Partner



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## QUESTIONS?



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## Scaling Up Microfinance Fall Webinar Series

- **New Product Development**
  - *Ashvin Prakash and Brenton Peck, CFSI*
- **Underwriting to Scale**
  - *Leslie Hoffman and Luz Gomez, FIELD at the Aspen Institute*
- **Customer Acquisition-Reaching and Retaining Your Customers**
  - *Ginger McNally, OFN and Maria Semple, The Prospect Finder*
- **Loan Fund and Credit Union Collaborations**
  - *Seth Julyan, OFN and Melanie Stern, The Federation*
- **The Role of Market Research in Scaling Microfinance**
  - *Tammy Halevy, AEO*

Oct  
24Nov  
1Nov  
8Nov  
11Nov  
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## CDFI Fund's Virtual Resource Bank

www.cdfifund.gov/what\_we\_do/Scaling\_Up\_Microfinance\_Resource\_Bank.asp

- WHO WE ARE
- WHAT WE DO
- IMPACT WE MAKE
- NEWS & EVENTS
- HOW TO APPLY

### COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

UNITED STATES DEPARTMENT OF THE TREASURY

**Scaling Up Microfinance: Resource Bank**

The resources for this topic can be found below. To view all of our available Resource Banks, click [here](#).

**I. Training Curriculum**

- Innovative Business Models
- New Products
- Talent Management
- Technology Solutions

**II. Training Webinars**

- Innovative Business Models
- Talent Management
- New Products
- Technology Solutions
- Loan Repayment

**III. Additional Resources**

- Microfinance Landscape and Borrower Experience and Need
- Innovative Business Models
- New Products and Services
- Technology Solutions
- Talent Management



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